

HOUSING OPPORTUNITY AND MORTGAGE EQUITY (HOME) ACT

OBJECTIVE: The HOME Act is designed to achieve what all other current foreclosure prevention programs have simply failed to do: stop the onslaught of foreclosures by offering all American homeowners the opportunity to refinance their mortgages at a more affordable rate. The foreclosure crisis continues to devastate our districts and drag down the economy as a whole. Only a far-reaching solution to the housing crisis, such as the one in this legislation, will help turn the economy around. The HOME Act will: 1) stop the onslaught of foreclosures; 2) stabilize home sales prices; 3) stabilize the tax base of local communities; and 4) provide much-needed stimulus to the economy.

STRATEGY: These objectives will be achieved by offering all current homeowners and homebuyers the opportunity to get a mortgage at a below-market rate of 4%.

Many borrowers have lost significant home equity due to the recent plummeting of housing prices. As a result, they are not able to refinance their mortgages because the amount owed on their original mortgage is more than the current value of their home. This program will allow lenders to refinance mortgages on par at a 4% interest rate for a fixed term of at least 30 years. Homeowners will immediately benefit from their reduced monthly mortgage payments, and banks will avoid having to write-down the mortgage principal. Homebuyers will also benefit from the guaranteed, fixed, low interest rates and will be motivated to enter the housing market. Between refinances and new purchases, foreclosures will be prevented, the overhang of housing stock will be diminished, and the housing market will be stabilized. In addition, homeowners who are able to refinance will see a significant drop in their current monthly mortgage payments, allowing them to spend this extra money on other items thereby stimulating the economy.

SPECIFICS: This home purchase and refinance program will use the conservatorship of Freddie Mac and Fannie Mae to stabilize the housing market. From the date of enactment until Dec. 2010, Freddie and Fannie will guarantee to lenders that they will purchase any mortgage meeting the stipulated qualifications (namely a 4% or better interest rate and a fixed term of at least 30 years). Knowing they will not have to keep these loans in their portfolios or reduce mortgage principals, lenders will be able to offer refinancing opportunities and new mortgages to borrowers, and investors who currently hold the mortgage-backed securities will be paid off in full. This activity in the housing market will create a floor for home prices and trigger a stabilization and subsequent increase of home prices. As home values rebound and foreclosures and defaults decline, the difference between the property value and the mortgage principal backed by the GSEs will decrease. Most importantly, borrowers will be encouraged to buy houses and will be able to afford their mortgages. The result of the HOME Act will be a stabilized housing market, sustainable mortgages for American homeowners, and a far-reaching, long-lasting stimulus to the economy.